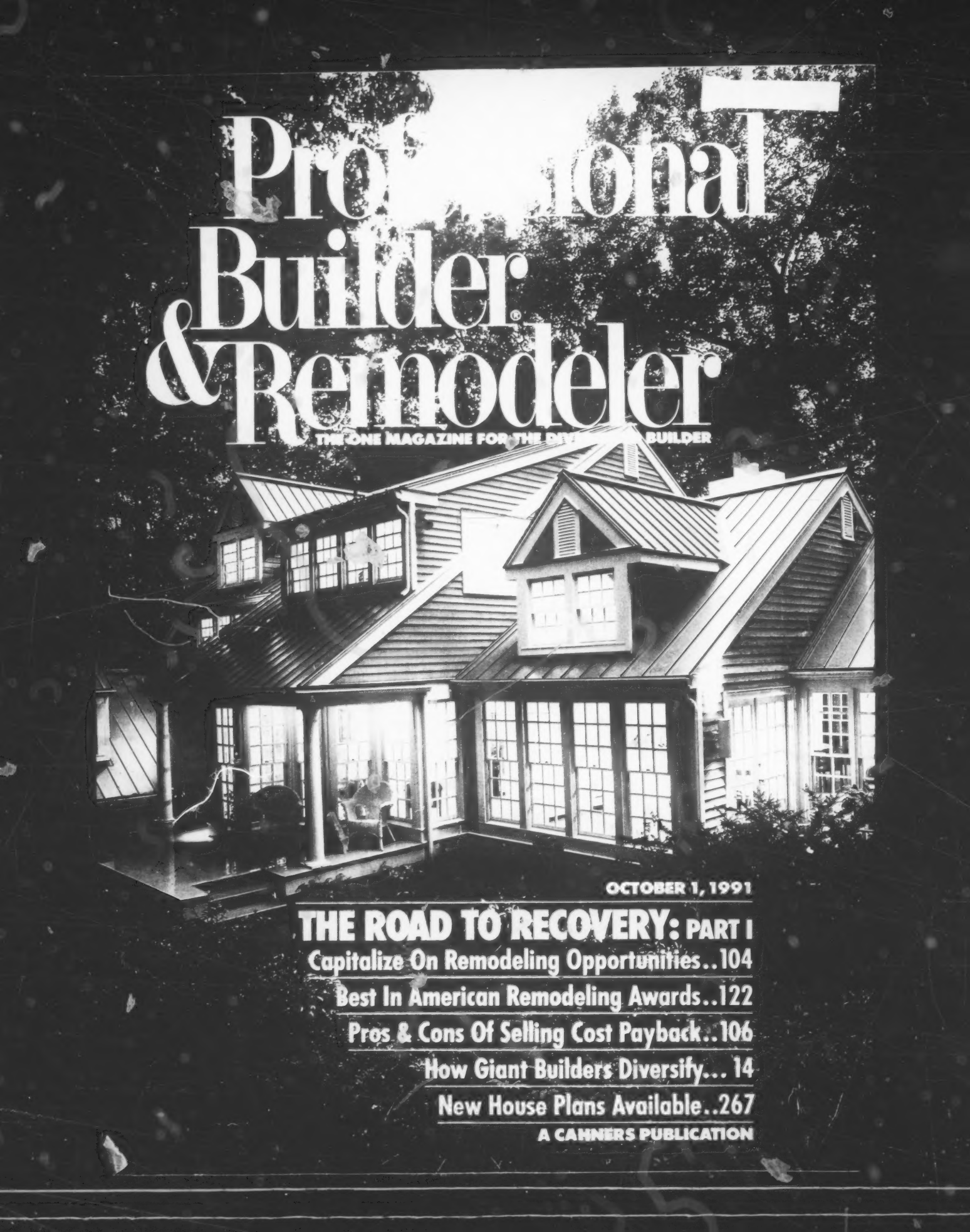
Professional Builder & Remodeler
THE ONE MAGAZINE FOR THE PROFESSIONAL BUILDER
OCTOBER 1, 1991
THE ROAD TO RECOVERY: PART I
Capitalize On Remodeling Opportunities..104
Best In American Remodeling Awards..122
Pros & Cons Of Selling Cost Payback..106
How Giant Builders Diversify... 14
New House Plans Available..267
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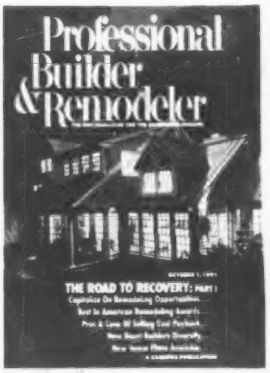
Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



On The Cover

Victor Barr, a principal with the Martin Organization and head of Apple Construction, Valley Forge, Pa., transformed this suburban Philadelphia home from a dated split-level to a colorful contemporary design. It was one of two Grand Award winners in the Whole House Renovation category of this year's Best In American Remodeling Awards. More award winners can be seen in the story, which begins on page 122. The cover shot was taken by Fred Forbes Photography.

Diversifying into new opportunities: p. 14.

Selling remodeling professionalism: p. 116.

FEATURES

The Road To Recovery: Part I 104

Over the next three issues, our features will be devoted to market opportunities to help put the recession behind you. This month, we focus on remodeling.

Learn How To Sell Value 106

When you tell a client that a remodeling project will add to the home's resale value, can you back it up?

Promote Professionalism 116

This special four-page pullout section is designed to help consumers see the benefits of hiring a professional.

Best In American Remodeling Awards 122

Now in its second year, this awards program represents the best remodeling projects from across the country.

Remodeling Products 238

A selection of new products and programs can help your company succeed in the remodeling segment.

Best In American Remodeling Awards: p. 122.

New lighting products: p. 238.

Exciting literature: p. 245.

OCTOBER 1, 1991

Business

■ Giant builders find that skillful estimating and supervision are the keys to remodeling success: *p. 14*. Kaufman & Broad is adept at finding usable infill sites in convenient locations: *p. 20*.

Markets

■ An impressive mid-rise condominium design delivers energy-consciousness and glamour to Florida: *p. 29*. Remodeler Chris Cutler converted a Victorian house that had been subdivided into four dwelling units back to a single-family home: *p. 32*.

Management

■ It pays to establish good relations with your subs. Here's why: *p. 73*. Computerized take-offs improve remodelers' efficiency and sales: *p. 78*.

Marketing

■ Three builders tell how broker incentives, resident referral and award programs can move those last few unsold or unleased units: *p. 89*. Creative advertising made sales sizzle at a UDC Homes community built on land purchased from the RTC: *p. 90*.

Technology

■ Protesting builders claim code changes in stair design will boost costs without improving safety: *p. 201*. Two leading designers offer solutions to traffic congestion in the kitchen: *p. 204*.

DEPARTMENTS

Editorial: The Road Ahead. . . 9
Washington: Congressional Challenges. . . 16
Accounting: Credible Record Keeping. . . 24
Inside Housing: Success Stories. . . 36
Remodeling: Weeding Out Low-End Jobs. . . 52
Real Estate Dynamics. . . 82
Advertising: Good Campaign, Bad Product. . . 94
Tech Watch. . . 208
Product Showcase: Lighting. . . 238
Literature Digest. . . 245
House Plans. . . 267
Indicators. . . 289

ROAD TO RECOVERY

Learn How To Sell Value

By Eric Benderoff, Associate Editor

What has more value: A 10-year-old's first home run in little league or winning a million-dollar lottery?

Value, like beauty, is in the eye of the beholder. But therein lies the challenge for remodelers—ascertaining how their clients determine value. In residential remodeling, there are two basic factors to consider: lifestyle benefits and investment payback.

Those who sell lifestyle value stress comfort. "Most of my remodeling is for personal pleasure," says Joseph Cassell of Cassell Construction, Ft. Lauderdale. "I stress how much the client will enjoy the finished product."

Selling investment value, on the other hand, focuses on financial gain. "People love to buy equity," says Brad Norgart of Harvest Enterprises, San Jose.

Overall, remodelers have mixed opinions when selling "value" is involved. In a telephone/fax survey conducted by *PB&R*, 87% of remodelers said they forecast what investment value a renovation will add to a client's house when making the sales pitch. What's surprising, however, is that only 29% take the time to actually track this data before and after renovation.

If remodelers are telling clients that specific renovations add to a home's value, shouldn't they be able to back it up with evidence? "Yes," asserts Bryan Patchen of NAHB's Remodelors Council. "The best fact a remodeler can tell a prospective client is that he worked on a house down the block about three years ago and the homeowners recently sold it, with the cost of renovation absorbed by the selling price."

Recouping the cost of renovation is always speculative. If the homeowners' intent is simply to make a buck at resale, they must be prepared to take into account their location and surrounding home values, resist the temptation to overspend and select designs, materials and colors that have generic market appeal.

Remodeling usually will add something to a home's resale value (market appreciation alone still adds as much as 20% a year in some areas), but there are no guarantees that 100% of the project cost will ever be recouped.

How you respond to a client when these issues arise could mean the difference between getting the job or not. "If the homeowner thinks he may sell soon, even five years down the road, will renovation help it sell quicker and for a better price?" Patchen asks. "It's an investment in quality."

"Today's consumer is more cost conscious than living benefit conscious," says remodeler Carmen

Photo: Greg Hursley

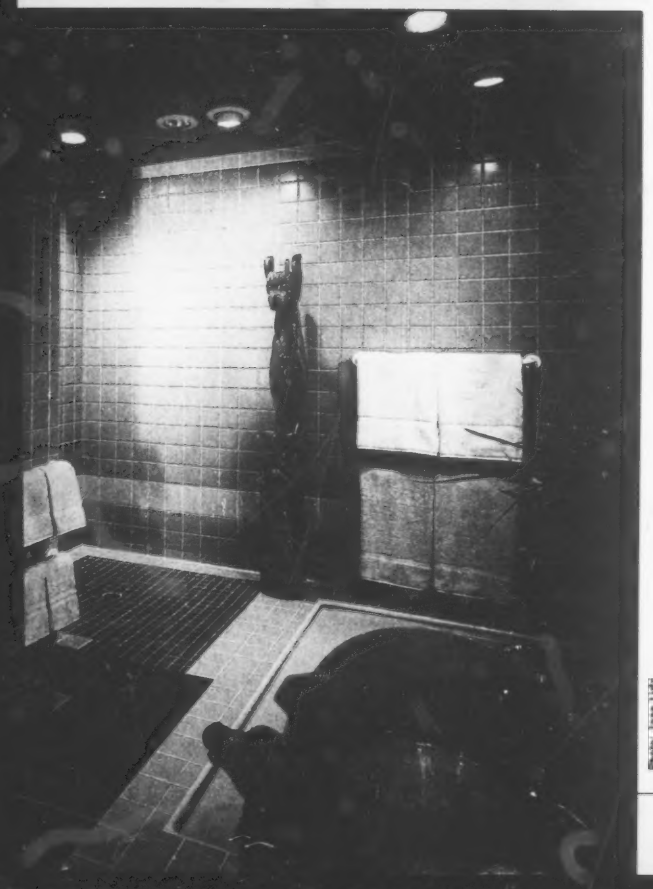
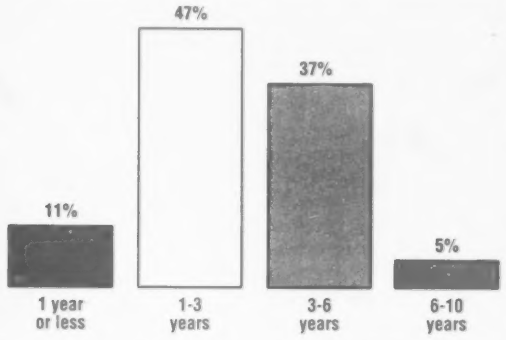


Photo: Jane Lidz

How soon after a renovation do remodelers project its cost to be recouped?



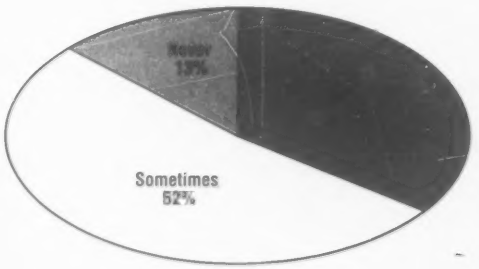
Top four remodeling payback jobs according to remodelers:

1. Kitchen renovation/addition
2. Master suite including bath
3. Second bath, or half-bath
4. Family room

Bottom four jobs:

1. Finished basement
2. Pool, indoor or out
3. Cosmetic work around house
4. Structural work that doesn't increase size of house

Do remodelers forecast what a renovation will add to a home's resale value when selling their services?



Contractors involved with remodeling say the two surest "investment cost payback" bets are kitchens and master baths.

Most remodelers sell payback; only 29% back it up with evidence

Santora, DiSanco Home Center & Remodeling, Rochester, N.Y. To reduce a client's fears regarding volatile home prices, Santora suggests that remodelers simply stay abreast of what's for sale and what has sold in neighborhoods they work.

"I take my own survey," says Santora. "I'll call the Realtor on the for-sale sign to find out what that house has or doesn't have, if the basement is finished, if it's been recently remodeled, and so on. If a past client just sold his home, I'll get the price and factor in the renovation. This is not hard to do.

"The result is that when I go to make a pitch and the person asks what this renovation will add to the house, and 90% *will* ask, I can give them comparables."

For example, Santora says in-law suites are currently popular is his community. The reason, he says, is that a significant number of transferees are entering his market and bringing relatives along. "If someone calls me from a certain suburb and says he wants to add a $50,000 in-law suite, I can tell him right away that his house will sell for $65,000 more than before because a neighbor's house on the next street added a suite and got that price."

Design/build remodeler Keith Boskoff, Architectural Design Concepts, Atlanta, says investment is the central element of his sales pitch. "Most of our customers are in the upper-end market, and they're pretty smart. Renovation better be a good investment or they just won't do it."

Boskoff is well-groomed in buying and selling renovated homes, having done eight for himself. "You can still find distressed houses on good lots around Atlanta," he says. A typical Boskoff client will buy a house for $350,000 in an upscale neighborhood, then spend a similar amount renovating it, for a total package worth about $700,000. "We look at the houses in the area—the square footage they have compared to what the client has," he explains. "I can basically renovate a home for $80 a square foot in neighborhoods where home values start at $150 a foot. The investment return is, in most cases, immediate."

Today's poor real estate market hasn't changed Boskoff's approach. "My clients know I've done this work before so they ask my advice on what will return the investment and what won't. I started this business by doing it myself, so I've always had a sensitivity to the investment end of remodeling. I present that right along with my design plans," he says.

Not all clients are interested in investment. They just want the job of their dreams. Still, remodelers should be prepared to answer the payback question.

"We can put together a case-by-case resale package for our clients," says remodeler Brad Norgart, Harvest Enterprises, San Jose. "People are keeping on eye on the resale market today. They are not throwing money away."

Norgart, also a licensed Realtor, subscribes to a networked software package, Daymar, that enables him—with a little interpolation—to track recently sold homes that have been remodeled. Like a multilisting service, Daymar details basic information on a particular property.

While Daymar does not always indicate whether remodeling has occurred, Norgart can figure it out on his own by checking the assessed tax base. For example, if the home has had the same owner for 20 years and was recently reassessed, he says, it's a good bet it was remodeled.

"I try to emphasize the value of staying put as opposed to moving," says remodeler Mark vanReuth, Brighton Builders, Arnold, Md.

He stresses this fact anytime the client gets "sticker shock" from the cost of remodeling: "When I come

Remodeling In Chicago Pays Back

Photos: Vinnie Baruch.

Tracking the numbers is as easy as opening a multilisting book. Immediately, one can find a home's sales price, school district and most importantly, what, if any, renovation occurred. In the pictured examples, two homes were renovated and two were not. All of the homes sold in 1991.

Houses **1** and **2** are in Park Ridge, an affluent northwest Chicago suburb. Home prices range from the high $100,000s to the low $300,000s. House **1**, on Merrill street, sold for $279,000. It is a Cape Cod with three bedrooms and two baths. The kitchen was recently remodeled. "The remodeling definitely helped," says real estate agent Janet Nesbit. "This house sold quickly in a tough market."

House **2** also sold, but for a lot less. It is on Washington in the same subdivision with the same schools. It has four bedrooms, only one bath, and in the words of real estate agent Patricia Pankus, "needed some TLC." This colonial sold for $219,000; $60,000 less than the Cape Cod.

Houses **3** and **4** are in Elk Grove Village, a tract community built in the early '60s. The town has a strong industrial base and an affordably priced housing stock. Both homes are on Elk Grove Road, a moderately travelled boulevard.

House **3** is a ranch with three bedrooms and two baths (both recently remodeled); it sold for $124,900. House **4**, also a ranch, has three bedrooms and *one bath*; it sold for $117,900—$7000 less. "If you have a tract of homes all about the same age, they will sell within the same price range," says remodeler Carmen Santora. "But the ones that have been remodeled will sell for a little more."

1) Park Ridge: Cape Cod, 3 bdrm. Remodeled kitchen. $279,000

2) Park Ridge: Colonial, 4 bdrm. 'Needs TLC.' $219,000

3) Elk Grove Village: Ranch, 2 bath (remodeled). $124,900

4) Elk Grove Village: Ranch, 1 bath. No renovation. $117,900.

Do remodelers track the home values of their jobs before and after renovations?

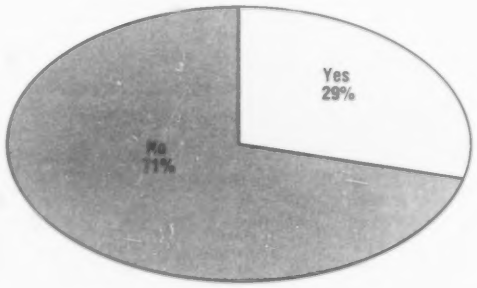


Photo: Otto Baitz Inc.

Noting high moving costs counters remodeling 'sticker shock'

back with an estimate of $100,000 to remodel, a client, on occasion, will gasp. They may say, 'Maybe I should look around for something new.' I'll encourage them, but before I leave I remind them what it costs to move: 7% Realtor commission, 2% in loan origination points, 1% for transfers; and miscellaneous expenses like new drapes, carpeting and a backyard fence to keep the dog from running away. It can add up to $25,000."

VanReuth also tells clients they can live at home during renovation, and that they are getting the curb appeal and pizzazz of a new house. "I always emphasize the enjoyment, then stress that when they do finally sell five years down the road, buyers will be impressed." More often than not, vanReuth's sales pitch works. "It's realistic," he says.

Like vanReuth, Rochester's Carmen Santora is realistic with his clients about the financial gains of remodeling. "If someone calls me up and says they want to put a bedroom in their basement and then I find out they really want an in-law suite, I'll encourage them to think about adding on the back (if there's room), or raise the roof to make the attic livable," Santora explains. "The cost will be one-and-a-half times greater than a basement job, but the return can be 10 times better." Santora says basement makeovers return only 10% of the investment, while a room addition, and especially an attic expansion, will get "90% to 100% return almost immediately."

He adds that 70% of his business comes from repeat referrals, a testament to his 22 years in business. "I just document my jobs and know what's happening in the neighborhood," he says. It's that easy. □

—PB&R intern Lisa Osborne contributed to this story.

Most common financial services remodelers offer:

1. Bank references
2. Second mortgages
3. Financing arranged through bank
4. Home improvement loans

Why Sell Lifestyle?

"Current economic conditions are reducing the added investment; clients should make themselves comfortable, not someone else." *William Cummings, Salt City Contractors, Liverpool, N.Y.*

"Not making claims about returns lets me explain real wants and needs." *E.B. Rayburn III, E.B.R. C.C., Carmel, Ind.*

"Homes are not investments." *Bill Grinnell, Venice, Calif.*

"Today's falling real estate market makes investment approach unrealistic." *Mel Silver, Tri-Boro Design/Remodel, Queens Village, N.Y.*

"Most clients like their neighborhood and aren't really concerned about the resale value of the finished product." *John Thompson Jr., Town House Development, Swampscott, Mass.*

Why Sell Investment?

"When viewed as an alternative to moving, even large remodels make economic sense." *Mark vanReuth, Brightview Builders, Arnold, Md.*

"I stress investment value because people love to buy equity." *Brad Norbart, Harvest Enterprises, San Jose, Calif.*

"Projects that don't pay off financially are individual, one of a kind jobs." *Len McAdams, The McAdams Co., Kirkland, Wash.*

"The lifestyle is the sizzle; the investment is the sales close." *George Kirk, Kirk Development Co., Phoenix.*

Best Bets To Recoup Costs

- □ Remodeling theme should complement the existing architecture and maintain conformity of the house. Include strong curb appeal.
- □ Do not overbuild for neighborhood. Best investment is bringing home up-to-date with norms of neighborhood; exceeding the norm is trouble.
- □ Renovate with saleable ideas of the times; use products that appeal to a wide audience if owner plans to move within five years.
- □ Energy-saving items like set-back thermostats, low-E or double-glazed windows, low-flow bathroom fixtures.
- □ Interior drama; combine great room, breakfast nook and kitchen in a flowing floor plan. Make it multifunctional, include a built-in bar.

Should remodelers use payback as a sales incentive?

Remodelers comment:

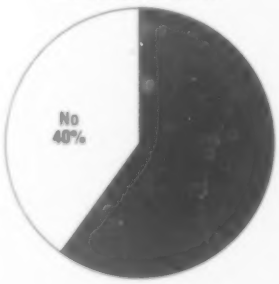
YES: "It assures the customer that they not only derive enjoyment from remodeling, but they also recover costs when they sell." *Ross Freidman, Windard Builders, Lake Forest, Ill.*

"It's a sales tool. Remodeling will add value immediately and you get immediate enjoyment." *William Madison Jr., Lake Forest, Ill.*

NO: "I don't feel it's a realistic sales tool because you don't always get 100% back." *Blaine Sandona, Sandona Construction, Des Plaines, Ill.*

"Owners are looking to spend a specific amount controlled by the appraised value of the house." *Bud Geers, Design Construction, Des Plaines, Ill.*

Remodelers' response:



Appraisers comment:

YES: "If sales staff is well trained, the advantages of remodeling can be demonstrated by matched-pair sales of remodeled vs. unremodeled homes." *Gary Declark, Realty Consultants, Chicago.*

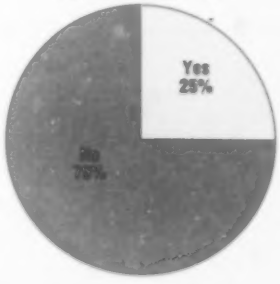
"But do not over improve house relative to price range in neighborhood." *Michael Beric, Lyons, Ill.*

NO: "The computation of the payback could be skewed, and hence, misleading to a homeowner." *John Urubek, Berwyn, Ill.*

"Too difficult to explain to typical homeowner on a numeric dollar-for-dollar return." *Anthony Uzemack, Park Ridge, Ill.*

"Buyers are concerned with what the property will do for them now." *William Price, Real Property Appraisers, Chicago*

Appraisers' response:



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Kwikset Corp., A Black & Decker Co.	37-42	16
Lennox Industries, Inc.	263	73
Louisiana-Pacific Corp. (All Products)	92-93	39
Louisiana-Pacific Corp. (Innerseal)	60-61	24,25
Louisiana-Pacific Corp. (Redwood)	288	80
Lutron Electronics Co., Inc.	IBC	81
Martin Industries	22-23	12
Marvin Windows	148-149	45
Masco Corp.	63-68	26
Maytag Co.	2-3	
Maze Company, W.H.	265	77
+Merchandise Mart	266f	86
Mobay Corp.	200	47
Nat'l Assoc. of Home Builders (NAHB)	209-224	
NordicTrack	261	
+Northern Illinois Gas	266e	85
Nutone Inc.	17	8
Overhead Door	241	56
Owens Corning Fiberglass Corp. (Residential Construction)	53-55	21
Peachtree Doors, Inc.	86-87	36
Pella Windows & Doors, Rolscreen Co.	96-97	42
Pontiac	91	38
Price Pfister Inc.	79	32
Professional Builder & Remodeler Magazine	71,225,283	
Qest	95	41
Reading Body Works, Inc.	43	9
Ricoh	261	70
Rolscreen Co., (Pella Windows & Doors)	96-97	42
S & S Mills, Inc.	49-51	19
Schlage Lock Co.	101-103	44
Scholz Master Builders, Inc	69	27
Senco Products, Inc.	8	4
Smart House Venture, Inc.	18	17
Stucco Stone Products, Inc.	258	66
Suburban Propane/Petrolane	236-237	55
Superior Fireplace	10,11,80-81	6,33
Swirl Way	88	37
Transferable Systems, Inc.	19,259	10,68
Tulikivi Group North America	255	61
United States Gypsum Co.	244	58
Valley Faucets	199	46
Velux-America, Inc.	21	11
Weather Shield Mfg., Inc.	76-77	31
Webster Moulding & Millwork Co.	57	22
Wenco, Division of Jeld-Wen	34-35	75
Whirlpool Corporation	203	
York Spiral Stair	266	79

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INDICATORS

Top Construction Markets For 1992 Found In Southwest

Special report indicates regions with growth possibilities for home builders and remodelers.

Cahners Economics has recently released its annual special report on the "Top U.S. Construction Markets" for next year. By following trends in building permit data over the past several years, we have been successful in identifying those specific geographic markets that hold the greatest potential for home builders and remodelers.

New Residential Construction: The sheer size of many of the nation's largest metropolitan areas practically guarantees that certain cities will rank in the "Top 50," regardless of how "hot" or "cold" the area's construction markets are in a given year.

In fact, of the regional areas projected to be in the "Top 10" for new residential construction in 1992, nine had actually recorded over-the-year declines in construction activity through the first half of 1991.

Only five of the 10 areas projected to be the top-dollar-volume markets for new residential construction in 1991 were on our "Top 10" list for 1991. On the strength of the relatively healthy economies of the Southwestern states, Houston, Phoenix, and Las Vegas have joined the list for 1992, along with Minneapolis and Honolulu.

In contrast to years past when California and Florida cities often accounted for upwards of 40% of the "Top 50" new construction markets, only six areas in California and four in Florida are expected to have enough construction volume to crack the top tier in 1992.

Residential Remodeling: Among the 10 cities projected to be tops for remodeling next year, three areas—West Palm Beach, Honolulu and Minneapolis—are new to the list. The geographic distribution of our "Top 50" remodeling markets list is considerably different, and more varied, than our new construction list.

Cities in the Northeast and industrial Midwest—areas with generally older housing stocks than most areas in the South and West—rank much higher on the remodeling list. Many of these areas have also suffered through a few years of very depressed conditions in their real estate markets, marked by sharply lower sales of both new and ex-

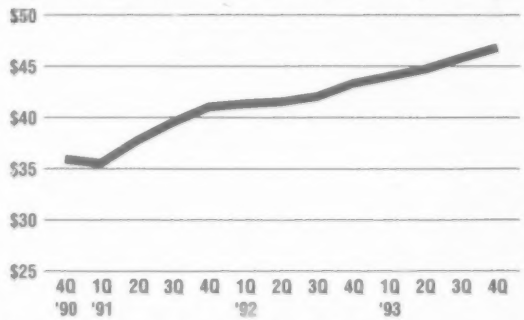
Continued on page 290.

Regional Market Conditions
(Year-To-Date Trends)

	S-F Home Permit $	Average S-F Permit Value	Remodeling Permit $	Employment Change
Hartford	-8.3%	$110,608	-26.2%	-3.2%
Pittsburgh	-14.5%	$109,391	-15.2%	-0.1%
Charlotte, N.C.	-23.6%	$78,831	+1.5%	+0.4%
Nashville	-1.5%	$80,188	+0.1%	+0.3%
New Orleans	+25.1%	$73,177	-7.1%	+2.3%
Columbus	-9.1%	$110,363	-2.5%	+1.6%
Kansas City	-10.6%	$93,409	-11.7%	+0.3%
Phoenix	+14.6%	$108,955	+2.9%	+1.6%
Seattle	-40.7%	$117,787	-37.5%	+2.3%

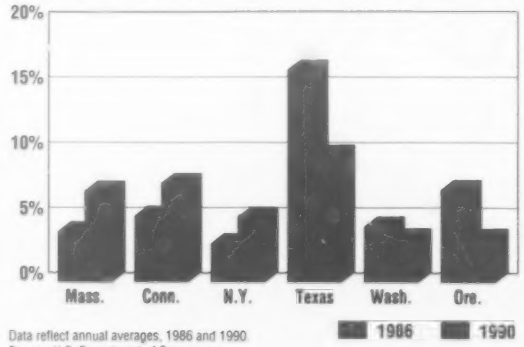
Sources: U.S. Departments of Commerce and Labor.

Forecast Of Addition & Alteration Spending



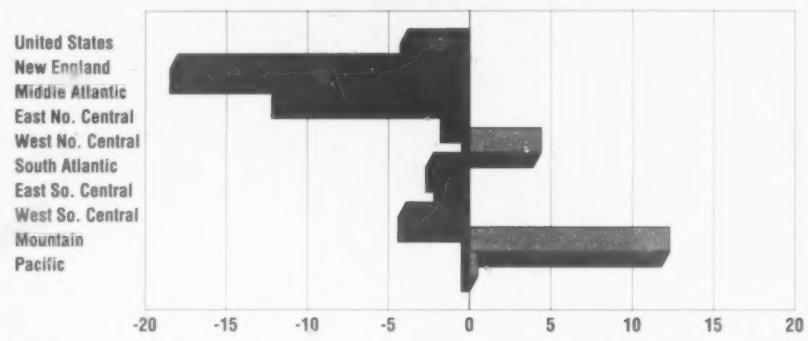
Data reflect quarterly averages, annualized rates in billions of $.
Source: U.S. Department of Commerce. Forecast: Cahners Economics.

Rental Vacancy Rates in Selected States



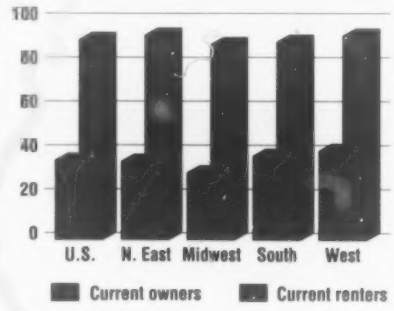
Data reflect annual averages, 1986 and 1990.
Source: U.S. Department of Commerce.

Residential Remodeling Permit Value Trends
(Year-To-Date 1991 vs. 1990)



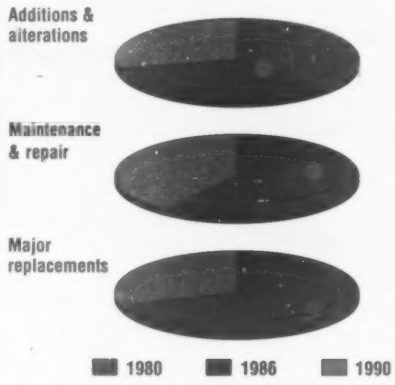
Source: U.S. Department of Commerce.

Affordability Status By Region, 1988



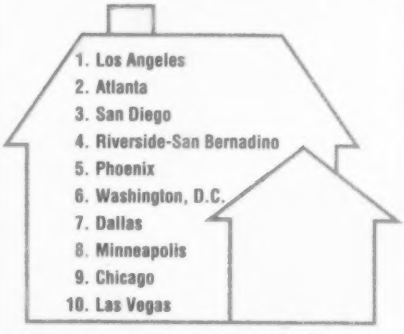
Data reflect % of families who could not afford the median-priced home.
Source: U.S. Department of Commerce.

Consumer Spending On Additions & Alterations



Data reflect share of total annual expenditures by type of job.
Source: U.S. Department of Commerce.

Top New Home Construction Markets–1st Half 1991



Areas ranked by value of new residential building permits.

Source: Federal Home Loan Mortgage Corp.
Forecast: Cahners Economics.

Key Market Trends

	June '91	Sept '90
Total housing starts*	1,040,000	1,106,000
New home sales*	474,000	504,000
Remodeling permit trend	-3.8%	2.2%
Consumer confidence index**	78.0	85.6
Median new home price	$121,900	$113,000
Fixed-rate mortgages	9.62%	10.18%
Construction wage trend	1.5%	2.2%

* Seasonally adjusted annual rate.
** 1985 = 100.

Continued from page 289.

isting homes, and low overall levels of price appreciation.

These factors have served to spur remodeling spending, as homeowners have opted to "trade up in place."

The troubled Boston area market, for example, continues very weak in new construction activity, but remains a strong No. 12 on our projected 1991 remodeling list. Conversely, the Las Vegas area, which is No. 6 on our new construction list, is nowhere to be found on our "Top 50" list of remodeling cities for next year.

The fastest-growing new remodeling markets are scattered throughout the nation, presenting some good opportunities for remodelers in all regions of the country. Looking at permit trends through the first half of 1991, we find Honolulu's extraordinary gain of 99.5% leading the pack. Other sharp gains out West include Portland's 56.5% gain and Seattle's 33.7%.

In the middle part of the nation, Denver (up 18.5%), St. Louis (up 13.9%) and Houston (up 10.5%) all recorded good gains in permitted remodeling work through six months of 1991. While on the East Coast, Jacksonville (up 37.9%), Norfolk (up 24.6%) and even New York City (up 9.1%) moved up during this difficult recessionary period.

Copies of the full "Top U.S. Construction Markets for 1992" report are available for $75 from Cahners Economics. The report can be ordered by contacting Wendy Chambers at 1-800-445-0678 or by FAXing your request (Attn: Wendy Chambers) to 1-617-630-2100. □